GRAND UNION

1962 Annual Report

GRAND UNION SUPERMARKETS

GRAND WAY DISCOUNT CENTERS

Our Ninetieth Year

ANNUAL MEETING

The Annual Meeting of stockholders will be held at 11 A.M., Wednesday, May 22, 1963 in the auditorium of the Garden State Plaza Shopping Center, Routes 4 and 17, Paramus, New Jersey. A notice of the meeting, together with a proxy statement and form of proxy, is being mailed to each stockholder with this report.

THE GRAND UNION COMPANY
Annual Report

for the fiscal year ended March 2, 1963

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Financial Highlights

The Grand Union Company and its Subsidiaries

	1962	1961
NET SALES	**$630,529,554**	**$640,621,586**
EARNINGS BEFORE INCOME TAXES	**10,204,089**	**14,582,507**
FEDERAL INCOME TAXES	**5,150,000**	**7,430,000**
NET EARNINGS	**5,054,089**	**7,152,507**
EARNINGS PER COMMON SHARE*	**1.02**	**1.47**
INVENTORIES	**53,763,630**	**52,043,372**
NUMBER OF COMMON STOCKHOLDERS	**12,356**	**10,789**

* Based on the average number of shares outstanding during the respective periods. The earnings per share for 1961 have been adjusted for the 3% common stock dividend paid May 25, 1962. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.

From the President's Desk

To Stockholders of The Grand Union Company:

During 1962 your company met the challenge of vastly heightened competition while laying the groundwork for future growth by carrying out one of the most ambitious programs of new construction in its 90-year history.

Sales for the 52-week 1962 fiscal year which ended March 2, 1963 were $630,529,554, a weekly average of $12,125,568. These compare favorably with the all-time record sales of $640,621,586 during the 53-week 1961 fiscal year, a weekly average of $12,087,200.

Net earnings for 1962 totaled $5,054,089, as compared with $7,152,507 in 1961. Expressed on a per share basis, earnings were $1.02 in 1962, compared with $1.47 the previous year.

SALES AND PROFITS IMPROVE IN SECOND HALF

Sales and profits, particularly the latter, improved markedly during the second half of 1962. Both were adversely affected during the first six months by a variety of factors which included:

- A three-week strike by clerks which cut sales sharply in 72 markets in the New York metropolitan area during March.
- Introduction of trading stamps by major competitors which caused a temporary drop in our sales in several important marketing areas.
- Intensified promotional and advertising expenses, well above normal budget, which were essential to combat the effect of the new trading stamp introductions.
- Expenses of a large-scale program of store building, replacement and remodeling which, added to the extraordinarily high promotion outlays, cut deeply into first-half profits.
- A decided overall increase in competition generally in both the food retailing and discount merchandising fields.

Vigorous counter-measures taken to offset the early year competitive pressures and effects of the strike resulted in maintenance of sales during the first half of 1962 at a level only 2.8% below a year earlier. That the measures were effective is evidenced by the fact that sales showed a 3.4% increase, on the basis of a like number of weeks, in the second half of 1962 versus 1961.

Recovery in profit was even more dramatic.

During the first half of 1962, net profit was 35¢ per share, as against 72¢ in 1961. For the second half of 1962 it was 67¢ a share in 26 weeks as against 75¢ in the 27-week final half of 1961.

The 87% increase in dollar profits during the final six months of 1962 as compared to the first six months is a realistic measure of the extent of recovery during the year.

Sales continued their upward trend as we began 1963. During the first four weeks of the new fiscal year, through March 30th, they showed a gain of 5.2% as compared with sales for the same period a year ago.

Following the close of the 1962 fiscal year the Board of Directors at a meeting on April 12, 1963, voted a 2% stock dividend and the regular quarterly cash dividend of 15¢ per share on the company's common stock, both payable on May 24, 1963 to stockholders of record April 22, 1963.

42 NEW STORES OPENED DURING YEAR

During the year, Grand Union opened 39 new supermarkets and three Grand-Way Discount Centers. The company had 497 stores in operation at the end of fiscal 1962, compared with 475 a year earlier. Thirty-five existing stores were enlarged, remodeled or renovated.

The substantial investment in this expansion program, one of the largest in any single year in the company's history, has kept the company in the forefront of the nation's food chains.

Grand Union plans to open approximately 25 new stores, including a Grand-Way Discount Center, during fiscal 1963.

While fewer stores will be built this year, our continuing program of store modernization will be accelerated. Plans have already been made for the renovation and enlargement of a greater number of existing stores in 1963 than in 1962.

Experience has proved that store remodeling produces an excellent return on investment. We are, therefore, concentrating a large part of our effort in this area during 1963.

NEW HEAD OF GRAND-WAY

Joseph L. Eckhouse, former executive head of Gimbel's, New York, joined Grand Union during the year as Vice President and was elected a member of the Board of Directors. He is now executive head of the general merchandise operations of the Grand-Way Division.

Mr. Eckhouse's background, which includes 35 years' experience in the general merchandise field, will be of great benefit in the further development of the Grand-Way Division.

The Grand-Way concept of merchandising food and general merchandise under the same roof continues to prove its worth. This technique of one-stop shopping is perhaps the most imitated formula in American retailing today. Grand Union has remained the acknowledged leader among food chains in this form of merchandising since it opened the initial Grand-Way in 1956. The experience we have gained during this period has become an invaluable asset as more and more of our competitors turn to discounting.

The newest Grand-Way, a 120,000 square foot store in Binghamton, New York, is scheduled to open in the Fall of 1963.

"TRIPLE-S" SALES INCREASE

Distribution of *Triple-S* Blue Stamps showed an 8% increase during fiscal 1962, making it the most successful sales year for Grand Union's trading stamp subsidiary. This substantial sales increase was effected in spite of the introduction and strong promotion of trading stamps by a number of competitors within our operating territory.

Redemptions of filled *Triple-S* saver books increased by more than 8% over the preceding year. To accommodate this increased consumer usage of Blue Stamps, five new Redemption Centers were opened to bring the total to 55. Nine existing Centers were either transferred to larger quarters or completely renovated.

To keep pace with the growing volume of *Triple-S* sales and redemptions, three additional Redemption Centers will be opened during the first half of the current fiscal year.

INCENTIVE AFFILIATE MOVES AHEAD

Performance Incentives Corporation, Grand Union's sales and safety incentive affiliate, showed continued growth during the year.

More than 200 incentive programs were designed for a wide variety of leading business firms throughout the nation. The bulk of premium merchandise offered as prizes in these programs is scheduled for delivery during 1963.

Operating throughout the country, with offices in six key cities, PIC in 1962 made impressive gains in establishing itself as a leading service organization in the increasingly important field of sales incentive programming.

EASTERN SHOPPING CENTERS, INC. SHOWS PROFIT

Eastern Shopping Centers, Inc., Grand Union's shopping center development affiliate, reported net income of $103,744 for fiscal 1962, compared with $90,669 in 1961. It was the fourth consecutive year during which the firm operated at a profit.

Seven shopping centers, with a combined gross rental area of 1,681,000 square feet, are now being operated by Eastern. Additional centers, comprising more than 509,000 square feet of gross rental area, are currently under construction and scheduled to be completed in 1963 and 1964.

Eastern Shopping Centers also holds 48% of the common stock of Eastern Diversified, Inc., a realty affiliate with extensive holdings in the Cape Canaveral and Orlando areas of Florida. Residential, commercial and recreational developments are being carried out in these prime growth areas.

Shopping center development, plus the diversification of real estate activity provided through Eastern Diversified, will continue Eastern Shopping Centers' position as a leader in its field.

NEW DIRECTORS NAMED TO BOARD

In addition to Mr. Eckhouse, five other members were elected to the Board of Directors during the year. They were Emerson E. Brightman, William H. Preis and Charles G. Rodman, all Vice Presidents of The Grand Union Company; Arthur J. Quinn, Administrative Vice President of The New York Savings Bank, and Laurence A. Tisch, Chairman of the Board of Directors and President of Loew's Theatres, Inc.

The demonstrated executive and administrative skills of these new Board members will add additional depth and perspective to Grand Union management. Their individual and collective contributions to the company's development will be of outstanding value in the years ahead.

Death has claimed two members of the Board of Directors, Hugh J. Davern and Thomas J. Shanahan, since my last report to you. Their wise and helpful counsel will be greatly missed.

Mr. Davern devoted almost his entire business career to Grand Union. He joined the firm in 1924 and advanced through the ranks to the position of Senior Vice President, the title he held at his retirement as an officer of the company in July, 1962. He had been a Director since 1948.

Mr. Shanahan, Chairman and Chief Executive Officer of the Federation Bank and Trust Company of New York at the time of his death, had been a member of our Board of Directors since 1947. As a Director and for many years a member of the Executive Committee of the Board, he made major contributions to the company during a period of outstanding development.

Francis F. Randolph, Partner in J. & W. Seligman & Co., Securities, who has been a member of the Board of Directors since 1958, will not stand for re-election this year. His retirement is a matter of great regret on the part of his fellow Directors.

OPPORTUNITY AND CHALLENGE IN 1963

Our company has entered fiscal 1963 with full knowledge of the year's opportunity and challenge. We have brought our physical plant to the point where Grand Union stands second to none in the food industry; our sales programs are effective; our people are determined.

We have an opportunity to make the year a banner one in Grand Union history. The principal challenge we face is control of rising costs.

To meet this challenge successfully, we have instituted the most stringent control over each of our cost factors. We have also formulated and instituted new programs to increase productivity. Initial results of these cost control and productivity programs give us genuine reason for optimism.

Grand Union is now in its ninety-first year of service to the American consumer. With the loyal and dedicated cooperation of our more than 17,000 employees, the management of the company is certain that 1963 will prove itself to be one in which planning wisely and working efficiently will pay dividends in both sales and profits.

Thomas C. Butler

President

April 22, 1963

THE GRAND UNION COMPA

Consolidated

ASSETS

	MAR. 2, 1963	MAR. 3, 1962
Current assets:		
Cash	$ 15,447,311	$ 13,616,101
Temporary cash investments, at cost	1,014,508	8,398,725
Accounts receivable, less allowance for losses	3,018,347	3,009,776
Notes receivable	153,000	214,500
Inventories, at the lower of cost or market (Note 1)	53,763,630	52,043,372
Total current assets	73,396,796	77,282,474
Investment in affiliated companies, at cost (Note 2)	3,181,232	2,859,235
Fixed assets, at cost less allowances for depreciation and amortization (1963, $33,348,498; 1962, $28,622,864):		
Land	2,771,427	3,706,571
Fixtures and equipment	37,512,115	36,504,929
Leasehold improvements and leaseholds	12,186,384	11,770,448
Other	1,351,949	1,654,570
Operating and construction supplies	1,203,557	1,176,448
Other assets and deferred charges	3,520,076	3,397,014
Cost in excess of amounts of net assets at dates of acquisition	7,444,193	7,455,307
	$142,567,729	$145,806,996

See accompanying financial notes.

NY AND ITS SUBSIDIARIES

Balance Sheets

LIABILITIES

	MAR. 2, 1963	MAR. 3, 1962
Current liabilities:		
Promissory notes due within one year	$ 1,250,000	$ 1,250,000
Accounts payable and accrued liabilities	30,259,176	32,248,697
Federal income taxes	2,747,214	5,573,534
Total current liabilities	34,256,390	39,072,231
Promissory notes payable after one year in varying amounts annually through 1973	13,437,500	14,687,500
4⅛% Subordinated debentures, due 1978 (Note 3)	9,871,600	9,873,300
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1963, $4,566,939; 1962, $4,353,951)	1,520,000	1,450,000
Deferred Federal income taxes	3,692,654	2,722,575
Deferred investment tax credit (Note 5)	507,798	—
Other noncurrent liabilities and reserves	1,030,752	1,614,980
	$ 64,316,694	$ 69,420,586

CAPITAL

4½% Cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 115,529 shares	$ 5,776,450	$ 5,776,450
Common stock, $5 par value, authorized 6,000,000 shares, issued at March 2, 1963, 4,732,745 shares (Notes 3 and 6)	23,663,725	22,973,185
Capital surplus, as annexed	43,646,272	40,884,992
Retained earnings, as annexed (Note 4)	5,523,362	6,977,057
	78,609,809	76,611,684
Less, Treasury stock at cost (at March 2, 1963, 12,730 common shares, $162,852; 4,543 preferred shares, $195,922)	358,774	225,274
	$ 78,251,035	$ 76,386,410
	$142,567,729	$145,806,996

See accompanying financial notes.

Consolidated Statements

INCOME AND RETAINED EARNINGS

	FIFTY-TWO WEEKS ENDED MAR. 2, 1963	FIFTY-THREE WEEKS ENDED MAR. 3, 1962
NET SALES	$630,529,554	$640,621,586
Cost of sales	496,605,750	506,073,808
Gross profit	$133,923,804	$134,547,778
Operating and general expenses:		
Salaries and wages to employees in the sales department	$ 56,040,773	$ 54,864,946
Other selling, administrative and general expenses	66,703,772	64,442,221
	$122,744,545	$119,307,167
	$ 11,179,259	$ 15,240,611
Other deductions, principally interest expense, net	975,170	658,104
Income before provision for income taxes	10,204,089	14,582,507
Provision for Federal income taxes (Note 5)	5,150,000	7,430,000
NET INCOME	5,054,089	7,152,507
Retained earnings, beginning of period	6,977,057	7,111,283
	12,031,146	14,263,790
Less Dividends:		
On common stock:		
In cash	2,814,187	2,705,529
In common stock, based on market price	3,443,975	4,331,580
On 4½% cumulative preferred stock, in cash	249,622	249,624
Retained earnings, end of period (Note 4)	$ 5,523,362	$ 6,977,057

CAPITAL SURPLUS

Balance, beginning of period	$ 40,884,992	$ 35,784,274
Add:		
Excess of retained earnings capitalized in connection with stock dividends over par value of shares issued	2,755,180	3,675,280
Excess of amounts received over par value of shares of common stock issued under employees' stock option plans (Note 6)	4,764	1,081,027
Excess of principal amount of debentures converted into common stock over par value of shares issued (Note 3)	1,336	344,411
Balance, end of period	$ 43,646,272	$ 40,884,992

See accompanying financial notes.

Financial Notes

1 Cost of inventories is determined as follows: at warehouses, "average" or "first-in, first-out"; at retail outlets, "retail method."

2 The consolidated financial statements include the accounts of all wholly owned subsidiaries. The company's investment in affiliated companies represented approximately 32% and 51%, respectively, of the outstanding common stock of Eastern Shopping Centers, Inc. and Performance Incentives Corporation. Eastern acquires, develops, and operates shopping centers while PIC offers employee incentive plans for business organizations. At March 2, 1963, the company's equity in the net assets of these affiliates, based upon the most recent audited financial statements, amounted to approximately $2,930,000.

3 The 4⅛% debentures outstanding at March 2, 1963 are convertible until July 15, 1968 into common stock on the basis of $26.72 principal amount of debentures for each share of stock. The conversion price is subject to certain adjustments as specified in the indenture. At March 2, 1963 an aggregate of 369,447 shares of common stock was reserved for the conversion of such debentures.

4 The note agreements and the 4⅛% debenture indenture contain provisions as to the maintenance of working capital and payment of cash dividends. The most restrictive of these provides that consolidated working capital may not be less than $14,500,000 and that payments for net acquisitions of the company's stocks and for cash dividends will be limited in the aggregate to 75% of the consolidated net earnings after March 2, 1957. At March 2, 1963, 75% of such consolidated net earnings exceeded such payments by approximately $13,600,000.

5 The provision for Federal income taxes for the current year includes deferred income taxes of $970,000 and deferred investment tax credit (being amortized over the useful life of the property) of $508,000. Provision for deferred income taxes for the year ended March 3, 1962 amounted to $820,000.

6 The company has granted options to employees to purchase shares of common stock at not less than 95% of market price on the dates the options were granted. Options may not be granted to directors who are not also officers of the company. Options granted are exercisable at various dates to December 31, 1970. A summary of transactions in shares for the current fiscal period with respect to stock options follows:

Options outstanding March 3, 1962	367,297
Options granted at $13.40 per share	10,000
Shares added to reflect 3% stock dividend	9,724
	387,021
Options exercised, cancelled or expired	40,155
Options outstanding, March 2, 1963 (held by approximately 3,300 employees at prices ranging from $13.40 to $29.40 per share)	346,866

At March 2, 1963, there were 84,482 additional shares available for option. The right to grant such options will expire on December 31, 1966.

7 The companies have 486 leases on store, warehouse and other properties expiring after February 26, 1966. The minimum annual rentals on such leases, not including real estate taxes or other expenses payable under the terms of certain of the leases, aggregate approximately $12,135,000. Of the aggregate annual rentals, $8,374,000 applies to leases expiring prior to February 25, 1978, and $3,761,000 applies to leases expiring thereafter but prior to 1992. In addition, the company is contingently liable on 38 leases applicable principally to stores sold, expiring after February 26, 1966, but prior to 1984, and having minimum annual rentals aggregating $986,000.

8 Costs and expenses include depreciation and amortization of $6,381,000 and $6,163,000 for the periods ended in 1963 and 1962, respectively.

Auditors' Report

TO THE STOCKHOLDERS,

The Grand Union Company, East Paterson, New Jersey

We have examined the consolidated balance sheets of The Grand Union Company and its Subsidiaries as of March 2, 1963 and March 3, 1962, and the related statements of income and retained earnings and of capital surplus for the fifty-two and fifty-three week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiary companies, which statements were examined by other certified public accountants whose reports thereon have been furnished to us. Our opinion expressed herein insofar as it relates to the amounts included for such subsidiary companies is based solely upon such reports.

In our opinion, the accompanying financial statements (pages 4 through 7) present fairly the consolidated financial position of The Grand Union Company and its Subsidiaries at March 2, 1963 and March 3, 1962, and the consolidated results of their operations for the fifty-two and fifty-three week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, April 15, 1963.

Lybrand, Ross Bros. & Montgomery

THE GRAND UNION COMPANY

OFFICERS

THOMAS C. BUTLER, President and Chief Executive Officer

EMERSON E. BRIGHTMAN, Vice President
JOSEPH L. ECKHOUSE, Vice President
BERNARD A. LUBECK, Vice President
LLOYD W. MOSELEY, Vice President

WILLIAM H. PREIS, Vice President
CHARLES G. RODMAN, Vice President
BERTRAM D. SHEPARD, Vice President and Secretary
EARL R. SILVERS, JR., Vice President

CHARLES H. HAIGHT, Treasurer

DIRECTORS

JOHN E. RAASCH, Chairman of the Board

LOUIS A. GREEN, Chairman of the Executive Committee

*THOMAS C. BUTLER
President

EMERSON E. BRIGHTMAN
Vice President

WILLIAM F. DEMPSEY
Former Senior Vice President
The Grand Union Company

JOSEPH L. ECKHOUSE
Vice President

RAYMOND H. FOGLER
Former President
W. T. Grant Company

*LOUIS A. GREEN
Partner, Stryker & Brown
Securities, New York City

IRVING KAHN
Partner, Abraham & Co.
Securities, New York City

WILLIAM I. MYERS
Former Dean, College of Agriculture
Cornell University, Ithaca, New York

WILLIAM H. PREIS
Vice President

ARTHUR J. QUINN
Administrative Vice President
The New York Savings Bank

*JOHN E. RAASCH
Former President & Chairman of the
Board of Directors, John Wanamaker

FRANCIS F. RANDOLPH
Partner, J. & W. Seligman & Co.
Securities, New York City

CHARLES G. RODMAN
Vice President

LAURENCE A. TISCH
Chairman of the Board of Directors
& President, Loew's Theatres, Inc.

* Denotes members of the Executive Committee of the Board of Directors

TRANSFER AGENT

THE CHASE MANHATTAN BANK
New York 15, N. Y.

REGISTRAR

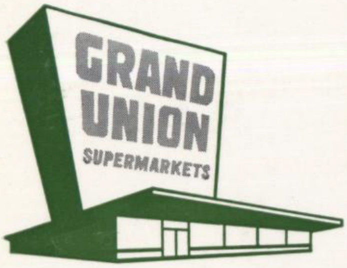
CHEMICAL BANK NEW YORK TRUST COMPANY
New York 15, N. Y.

TEN YEAR COMPARISONS

RELATING TO OPERATIONS

YEAR	NET SALES	EARNINGS BEFORE TAXES ON INCOME	FEDERAL INCOME TAXES	NET EARNINGS	EARNINGS PER COMMON SHARE(1)
1962	$630,529,554	$10,204,089	$5,150,000	$5,054,089	$1.02
1961	640,621,586	14,582,507	7,430,000	7,152,507	1.47
1960	604,273,503	14,470,898	7,380,000	7,090,898	1.48
1959	603,468,099	15,154,045	7,800,000	7,354,045	1.56
1958	503,712,887	13,096,522	6,650,000	6,446,522	1.47
1957	427,871,082	11,583,365	5,770,000	5,813,365	1.44
1956	374,155,488	10,049,315	5,000,000	5,049,315	1.30
1955	283,003,166	7,284,125	3,700,000	3,584,125	.98
1954	219,452,502	5,622,273	2,750,000	2,872,273	.89
1953	201,793,098	4,402,755	2,075,000	2,327,755	.72

(1) Based on the average number of shares outstanding during the respective periods adjusted for (a) subsequent stock dividends on common stock which were paid at the rate of 5% during each of the years 1954, 1956, 1957, 1958 and 1960, at the rate of 4% during the year 1955 and at the rate of 3% during 1959, 1961 and 1962, and (b) the two-for-one split effective May 26, 1955, and the three-for-two split effective June 15, 1959. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.



GRAND UNION SUPERMARKETS

CONNECTICUT	29
FLORIDA	22
MARYLAND	16
MASSACHUSETTS	4
NEW HAMPSHIRE	16
NEW JERSEY	56
NEW YORK	280
PENNSYLVANIA	4
VERMONT	20
VIRGINIA	14
WEST VIRGINIA	1
WASHINGTON, D. C.	3
PUERTO RICO	10
TOTAL	475*

THE GRAND UNION COMPANY

100 Broadway *East Paterson, N. J.*

GRAND-WAY DISCOUNT CENTERS

CONNECTICUT Danbury, Manchester, Stratford, Waterbury, West Haven	5
FLORIDA Fort Lauderdale, Miami (2), Orlando, St. Petersburg (2), Tampa, West Hollywood	8
NEW JERSEY Keansburg, Paramus	2
NEW YORK Albany, Cortland, Nanuet, Plattsburgh, Poughkeepsie, Vestal	6
VERMONT South Burlington	1
TOTAL	22*

* As of April 22, 1963

GRAND WAY
DISCOUNT CENTERS